Book Review

The Future of Money: How the Digital Revolution is Transforming Currencies and Finance

- *Sohini Banerjee & Pratik Datta*[*]

I. INTRODUCTION

The book '*The Future of Money: How the Digital Revolution is Transforming Currencies and Finance*', written by Eswar Prasad, and published in 2021 by the Belknap Press of Harvard University Press, is timely and thought-provoking. It provides a bird's eye view of the noteworthy developments in finance in the past few decades, and predicts that we are on the verge of an even more dramatic transformation having significant economic, political, and social ramifications. For this reason, it is richly deserving of a review. The need for the book is underscored by the tectonic shifts underway in the world of finance. As the significance of cash as a medium of exchange is on the wane, the emergence of cryptocurrencies, stablecoins, and central bank digital currencies ('CBDC'), mark the onset of a new era for consumers, governments, and businesses. Eswar Prasad's latest work deep-dives into this radical shift, – making it an essential read for scholars of finance, financial regulation, and fintech.

Eswar Prasad is a distinguished scholar in the field of finance, and the Nandlal P. Tolani Senior Professor of Trade Policy at Cornell University. He has formerly served as the chief of the

[*] The authors are Research Fellow and Senior Research Fellow at the Policy Research Group, Shardul Amarchand Mangaldas & Co., New Delhi.
This research was supported by the Suresh Shroff Memorial Trust. The authors are grateful to Mr. Shardul S. Shroff for his generous support and encouragement that made this research possible. We thank Mr. G.S. Hegde, Mr. Prashant Saran, Mr. Sudarshan Sen and Dr. Rajeev Uberoi for spirited conversations and thoughtful feedback. We would also like to thank the anonymous peer reviewers of the Indian Journal of Law and Technology for their robust comments. Shortcomings, if any, are solely attributable to the authors. The authors of this article are solely responsible for the contents thereof. The publication of this article shall not constitute or be deemed to constitute any representation by Shardul Amarchand Mangaldas & Co. or any of its Partners or Associates.

Financial Studies Division in the International Monetary Fund's Research Department, and the head of the IMF's China division.

The central idea of the book revolves around the eventual demise of cash to perform commercial transactions. It is argued that this will, in many ways, lead to a major disruption in finance, and transform the notion of 'money' as we know it. Further, Prasad observes that the shift away from cash will have profound implications for households, corporations, investors, central banks, and governments. The novel technologies which are responsible for bringing about this radical disruption have inherent benefits and risks. The book explores the bright side, and the dark side, of the marriage between technology and finance. Finally, Prasad asserts that within the buzz of excitement surrounding fintech, cryptocurrencies, and stablecoins, it is CBDC, a novel form of central bank money, that will wear the crown as the most significant innovation.

While the literature on cryptocurrency and CBDCs is vast, we have limited our scope to examining two aspects, namely the political economy of money, and the role of central banks. On the former, prominent works such as Niall Ferguson's *The Ascent of Money: A Financial History of the World* (2009) and Stefan Eich's, *The Currency of Politics: The Political Theory of Money from Aristotle to Keynes* (2022) deserve mention. It is worth noting that while these books analyse the manner in which the past explains the present, Prasad's work inspects how the present may impact the future. Prasad uses the present to develop a framework for thinking about the potential future pathways of development in this space. The author's forward-looking orientation is, thus, a distinguishing feature of his book.

Further, insofar as *The Future of Money* is a significant treatise on the evolving role of central banks, it joins the ranks of important works such as *The Evolution of Central Banks* (1988) by Charles Goodhart, *The Only Game in Town* (2016) by Mohamed El-Erian, and *The Economics of Central Banking* (2018) by Livio Stracca. A review of these works reveals that these authors treat the central bank as the protagonist of their narrative. In contrast, the protagonist in Prasad's book is money. He weaves in the analysis of the central bank's role as it pertains to the future of money. *The Future of Money* book should be of particular interest to readers in India, as well as scholars tracking fintech developments in India, due to its exposition on CBDC. In the backdrop of the Reserve Bank of India laying down its findings on CBDC in its recent concept note,[1] and launching the CBDC pilot in the retail segment, this book is a useful tool to take stock of where India stands *vis-à-vis* other nations. Moreover, considering India's prowess in digital payments, as well as the maturity of its digital payments ecosystem,[2] the findings of the book bode well for the future.

In this review, we will first examine the structure of the work, providing an overview of the author's central argument. We move on to offering critical analysis to evaluate the author's treatment of significant themes. We focus on two themes running across the book: first, the evolving institutional role of the central bank in a modern economy; and second, the implications of the issuance of CBDCs by central banks. Finally, we offer concluding remarks.

II. STRUCTURE AND OVERVIEW

The Future of Money is divided into ten chapters, including an introduction. Prasad goes on to note that Sweden and China are two countries at the forefront of the digital revolution transforming money.

The book is divided into four parts. Part I, named 'Laying the Bedrock', sets the context and contains an introductory primer to finance. It covers topics such as the main functions of a financial system, financial markets and institutions, and payment systems. It also poses some intriguing questions on the future of finance, such as whether the next round of disruption brought about by technology will be creative or destructive, the risks of new technologies, and how governments should strike a risk-benefit balance while adopting financial innovations. The author dwells on the question of what the overall impact of this disruption could be. For instance, such a disruption could be potentially favourable insofar as it could democratize finance and improve the quality of life of poorer households. On the other hand, the new technologies could bring with them serious risks that threaten traditional frameworks of regulation and hurt the poor. How governments react to these challenges will in turn impact the risk-benefit balance of such disruption.

[1] FinTech Department of Reserve Bank of India, 'Concept Note on Central Bank Digital Currency' (*RBI,* 7 October 2022) <https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/CONCEPTNOTEACB531172E0B4DFC9A6E506C2C24FFB6.PDF> accessed 9 April 2023.

[2]. *See* Vijay Kelkar and Ajay Shah, *In Service of the Republic: The Art and Science of Economic Policy* (Penguin Random Lane 2019) 90, 243.

Part II of the book, named 'Innovations', delves into the changes precipitated by new financial technologies such as mobile money and peer-to-peer lending, and traces the history of the cryptocurrency revolution. The author notes the reasons behind the rise of Bitcoin, the "granddaddy of what are referred to [as] *cryptocurrencies*", with the attraction of it being a pseudonymous medium of exchange that could be used for transactions without placing reliance on governments or banks, being the key factor.

Part III – 'Central Bank Money' – constitutes the linchpin of the entire work and is perhaps the most pivotal portion of the book. In this part, Prasad lays down one of his key arguments, i.e. the next wave of transformation in money will be brought about by the latest addition to the central bank toolkit – CBDC. The author makes a case for CBDCs by analysing the potential benefits and risks. Moreover, he puts forth that a CBDC has the potential to be more than a mere defensive move on the part of central banks to remedy their declining importance. Instead, it could broaden a central bank's toolkit to tackle financial collapse and recessions.

Part IV of the book, 'Ramifications', discusses the implications of the adoption of new technologies for the international monetary system. It also contains observations on the impact of CBDCs on monetary policy's implementation and transmission as well as on financial stability. It specifically highlights the special challenges for emerging economies emanating from technological innovations.

The book concludes with the confident proclamation that "The era of cash is drawing to an end and that of central bank digital currencies has begun." Prasad paints a picture with broad strokes of what the future of money would look like: physical money will become an anachronism, digital payment systems will become the norm across the world, and the nature of banking will change with new forms of financial intermediation becoming popular. On an optimistic note, he asserts that large portions of the global population will gain access to "at least basic financial services", thus bettering lives and bolstering economic status.

III. CRITICAL ANALYSIS

In the discussion that follows, we critically explore two prominent themes that run across the book: (i) evolving institutional role of the central bank in a modern economy, and (ii) the implications of issuance of CBDCs by central banks. We undertake this analysis with a view to appraise the author's treatment, as well as identify and address analytical gaps, if any.

(i) Evolving institutional Role of the Central Bank in a Modern Economy

In chapter 1 'Racing to the Future', Prasad notes that, "The emergence of new institutions and platforms will improve competition, promote innovation, and reduce costs, all of which will certainly improve the working of the financial system." However, he is quick to sound a note of caution by spelling out that it will also pose "significant complications for regulation and financial stability". It is this tension between the purported advantages of new financial technologies, and the potential complications for regulators and their macroeconomic goals, that underscores the developments analysed in the book.

One of the questions at the top of the author's mind is the manner in which the institutional role of the central bank will evolve in a modern economy and in the future. First, he notes that the basic functions of central-bank issued money are at the precipice of disruption. The birth of digital currencies, and the technology supporting them, has meant that the traditional functions performed by money can now be repackaged in a smarter and more efficient way. As a result, there now exists direct competition for fiat currencies. Given such circumstances, Prasad concludes that emerging market central banks and regulatory authorities have little choice but to take charge and proactively manage the benefit-risk trade-offs of financial technology innovations rather than passively letting markets take their course. This is already evident from the developments in India. The state, for instance, has played a pioneering role in building the Unified Payment Interface (UPI).[3] Such state-led innovations may have deeper political economy implications for the central bank as well as the markets. While Prasad rightly recognizes this concern at the end of the book, it remains relatively unexplored.

Second, Prasad raises the key question of how central banks will accommodate and adapt to change. In the years to come, central banks across the world will have to take critical decisions on whether they will resist new financial technologies, embrace private-sector led innovations, or accept the efficiency gains that new technologies have to offer. In this regard, central banks will have to grapple with balancing between financial management and risk management. On one hand, an excessively risk-averse approach could hinder domestic innovation and enable foreign players. On the other hand, an excessively risk-taking approach could upset financial

---

[3] *See* Kelkar (n 2).; Saurabh Thukral and Saloni Sachdeva, , 'Protecting UPI, a Jewel Among Indian Fintech Innovations' (*Niti Aayog*) <https://www.niti.gov.in/index.php/protecting-upi-jewel-among-indian-fintech-innovations> accessed 13 March 2023;Ministry of Electronics & IT, 'Digital Transactions in India' (*Press Information Bureau*, 8 February 2023)<https://pib.gov.in/PressReleasePage.aspx?PRID=1897272#:~:text=%23%20Note%3A%20Digital%20payment%20modes%20considered,%2C%20RTGS%2C%20PPI%20and%20others> accessed 13 March 2023.

stability and broader macroeconomic goals. Prasad rightly argues that technological innovations and constructive solutions (like regulatory sandboxes) themselves cannot compensate for the lack of central bank's credibility. What, however, remained unexplored is that a central bank's credibility may be hurt in this balancing act itself. For instance, a central bank trying to limit a particular technological innovation may find itself dragged to court by the industry. An increase in such instances of judicial review may reduce the judicial deference usually enjoyed by central banks, which may hurt its credibility.[4]

(ii) The Implications of Issuance of CBDCs by Central Banks

The CBDC bug has bitten several countries across the globe. Prasad notes that smaller advanced countries such as Canada, Israel and Sweden, as well as developing countries such as China and Uruguay, are in the same boat in this regard exploring and developing digital versions of their own currencies. The author noted in Chapter 1 'Racing to the Future' that CBDCs are a response on the part of central banks to the threat of financial disruption has been "to seek innovative ways of producing money". To put it simply, CBDCs are digital forms of central bank money, covering both retail and wholesale payments in their ambit. Making an important observation, Prasad says that the issuance of a CBDC will not remedy systemic flaws such as central bank credibility, and lack of discipline in government fiscal policies. Ergo, a CBDC is only as strong and trustworthy as the institution which is issuing it.

In chapter 6, 'The case for Central Bank Digital Currencies', Prasad dwells on the question of what motivates national authorities to nudge their central banks to issue a CBDC. He observes that from the perspective of central banks, the three primary motivations are to provide a counter to privately managed payment systems, to serve as a tool to promote financial inclusion, and to solidify a symbol of monetary sovereignty. Governments are also a key stakeholder as the central bank money may have implications for tax revenue of the state.

Moreover, this chapter underlines that CBDCs have the potential to be much more than just a "defensive response" by central banks to counter cryptocurrencies. Prasad observes that if designed correctly, and executed smartly, they could significantly bolster a central bank's typical toolkit, and aid in achieving monetary and financial stability. In other words, the issuance of a CBDC could make monetary policy more potent especially when the economic stability of a nation is in jeopardy, such as in times of nosediving growth and recession. Beyond

---

[4] Pratik Datta, 'Judicial Review of Central Banks: An Indian Perspective' (2023) Indian Law Review 7:1, 96-117.

monetary policy, CBDCs could usher in other advantages like quelling criminal activity, dissuading corruption, countering counterfeiting, and promoting digital smart money for low-income households.

It is worth noting that while the author spends considerable bandwidth discussing the advantages of a CBDC, not enough attention is paid to the potential drawbacks or dangers. This is a prominent gap in the author's treatment. Ironically, the author states in chapter 6 – "A benevolent government's good intentions can sometimes create more problems than they solve and can be subverted by human actions." To be fair, he does touch upon the downsides of a CBDC, listing factors such as squelching private sector led innovation, causing disintermediation of banks, risk of massive bank runs from commercial banks during a financial panic, and potentially violating the privacy of individuals. Nevertheless, the discussion is cursory, with scanty attention paid to the nuances of the potential drawbacks.

Similarly, one of the main premises of the book is that cash is on its way out and will soon cease to exist altogether. In fact, the author begins the discussion on the future of money in the very first chapter by quoting Cecilia Skingsley, the deputy governor of Sweden's central bank, where she says, "If you extrapolate current trends, the last note will have been handed back to the Riksbank by 2030." This idea constitutes an overarching theme of the book. He also uses China as a salient example, relying on anecdotal evidence to suggest that physical yuan banknotes were becoming less relevant even in pre-COVID-19 times.

It is, however, unfortunate that Prasad does not go the whole mile in establishing the validity of his central claim. While the reader is reminded time and again that big changes are afoot in the world of finance, precisely to what extent cash is being substituted, and if this will really tantamount to a total obliteration of cash in the economy, is not explored adequately. This is even more significant since the examples of Sweden and China used by him are unique and not easily representative of all nations. While Sweden's low population density and high per capita income differentiate it from India, China's surveillance-heavy economic markets effectively render it a category in itself.

Additionally, the author pays insufficient attention to whether the obliteration of cash from our economy is desirable in the first place. As he acknowledges in Chapter 6 'The Case for Central Bank Digital Currencies', there is a case to be made for cash. Getting rid of cash may potentially hurt the poor, threaten individual liberty and privacy, and encourage excessive spending. Nevertheless, the author mentions these advantages almost as an afterthought. In order to present a more balanced perspective, the author could have addressed this question upfront from a 'first-principles' lens. Adopting such an approach, which does not assume if cash is inherently 'bad' or 'good', would have provided the reader with more fodder to develop their own thoughts about the direction in which the financial sector is headed.

Nonetheless, it finds mention much later in the book under Chapter 6, where he goes into the advantages of cash. These include providing a medium of exchange that is free from government surveillance, being critical for poor and unbanked households, providing security during natural disasters and emergencies, and encouraging thriftiness. On a prescient note, Prasad observes that societies may in the future even come to regret the end of cash. We thus find it unfortunate that the book does not devote sufficient depth to exploring the conceptual foundations of its central claims. To this extent, despite its many contributions and value additions to existing literature, the book may have missed an opportunity.

IV. CONCLUSION

To sum up, *The Future of Money* reflects commendable efforts in identifying and bringing together the most pressing developments in the financial world in recent times. In scrutinising the technological disruption of finance, the work traverses a range of topics – the basics of money and finance, 'crypto mania', and CBDCs. The author's exploration of critical questions such as the evolving role of central banks in modern economies, and the implications of issuance of a CBDC, make it a salient work to understand our current reality as well as portend the future. In this book review, we have observed that the author's treatment was lacking in certain respects. While one of the primary premises of the book is that cash will cease to exist, we noted that the author has not explored the dimensions of this argument sufficiently. In this regard, a 'first-principles' approach may have served the work better.

Nevertheless, *The Future of Money* will be a valuable resource to readers who are keen to gain an understanding of finance and financial regulation, as well as those who are familiar with the subject but are desirous of gaining depth. Amid the Reserve Bank of India's launch of its own CBDC pilot in the retail segment, and the debate surrounding the decision, this book stands out as a welcome addition to the discourse on the subject.